1927

Taxable or not taxable

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with fund surpluses gives an amount for surplus which is not only not significant, but is actually misleading unless a supporting analysis also is given. The relationship between funds also would be destroyed by consolidating all the fund balance sheets, because of the elimination of inter-fund accounts. Deficits in some funds might be covered up by surpluses of other funds, and there would be no indication as to the condition of the individual funds.

Even if all the assets and liabilities are shown in one exhibit, it is essential that the segregation of funds be maintained. The form of a balance sheet is as important a consideration as the content. However significant, abstractly viewed, may be the content of any balance sheet, it will fail of accomplishing any useful purpose unless its form and arrangement be scientific and intelligible.

The form of a consolidated balance sheet in keeping with the above requirements may be either sectional or columnar. The sectional form of balance sheet will exhibit each fund separately, each section being self-balancing and complete in itself. There will be one total of all assets and another total of all liabilities and surplus. There will be no totals of assets by classes and no elimination of inter-fund balances. The columnar form of consolidated balance sheet will contain a column for the assets and liabilities of each fund and an additional column to show the grand total of similar items of all the funds, such as cash, receivables, payables, etc.

Instances of peculiarities in governmental accounting are numerous. No attempt has been made to cover the entire field. Neither has there been an effort to uphold any single procedure to the exclusion of all other possibilities. It is sufficient to indicate that there is a difference between governmental accounting and commercial accounting; that certain questions shift in their relative importance in governmental accounting; and that situations which arise in governmental accounting must be looked upon from a point of view distinct in itself. Not only should more time and effort be devoted to an extensive study of governmental accounting, but it is essential, in order to attain a rational solution of the problems involved, that governments should put into practice more promptly the best thought available.

Taxable or Not Taxable

MANY discussions have arisen concerning the liabilities and exemptions of clubs under the admissions and dues section of the Revenue Act of 1926. There seems to be a general misunderstanding as to the reason for the extra 10 per cent. charge on club dues and initiation fees. Much of this discussion has been caused by a pure lack of familiarity with this section of the Act, since it states very definitely the requirements and exemptions.

In the first place, part 2 of Regulations 43 relating to the taxes on dues and initiation fees, provides that there shall be levied a tax equivalent to 10 per cent. of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, where the dues or fees of an active resident annual member are in excess of $10 a year. This tax is to be paid by each member at the time of paying his dues or membership fees.

Suppose Smith is an active resident annual member of Evergreen Country Club, and he pays dues of $15 a year. He would have to pay a tax of $1.50 at the time of paying such dues. Jones is an associate member of the same club paying $7.50 a year dues. Even though his dues are under $10 a year, he nevertheless must pay a tax of $0.75 at the time of paying the

dues, since the dues of an active resident annual member exceed $10 a year.

The admissions and dues tax section also provides that all members must pay a tax of 10 per cent. on any amount paid as an initiation fee to any social, athletic, or sporting club, where such initiation fee exceeds $10, or if the dues or membership fees of an active resident annual member are in excess of $10 a year.

Again suppose that at the time of joining the Evergreen Country Club Smith paid $50 as an initiation fee. He would have had to pay a 10 per cent. tax, or $5, because the fee exceeds $10. If his initiation fee had been $5, he would also have had to pay a 10 per cent. tax, or $0.50, since the dues of an active resident annual member of this particular club exceed $10 a year. However, if his initiation fee had been $5 and the annual dues or membership fees of an active resident annual member were less than $10 a year, he would have been exempt from such a tax.

The subject of initiation fees and just what they comprise for purposes of this tax has until recently caused considerable confusion. Prior to December 28, 1926, the term "initiation fee" included any payment to the club required for becoming a member, whether evidenced by a certificate of membership or a share of stock in the club, or not. It included amounts paid to social, athletic, or sporting clubs for stock, where the purchase of such stock was required as a prerequisite to membership. Bona fide loans, secured by promissory notes, bonds, or other forms of indebtedness, made by members to the club were not subject to tax as initiation fees.

Let us assume that the initiation fee for admission to the Evergreen Country Club is $50, and that also as a prerequisite to membership each applicant has to purchase one share of stock in the club at $100. The new member, prior to December 28, 1926, would have to pay the tax on the full amount of $150. If, instead of requiring the new initiate to purchase a share of stock, the club required him to buy a $100 bond of the club, the new member would be taxed on the $50 only.

However, since December 28, 1926, the meaning of the term "initiation fee" has been changed, by Treasury Decision 3950, to mean the payment of an amount for the purpose of becoming a member of a club and enjoying its privileges, and which when paid is not intended to be returned to the person paying it. Hence, the term "initiation fee" does not now include amounts required to be paid by new members for stocks, bonds, promissory notes, or certificates representing an interest in the property and assets of the club.

Consequently, if Williams joins the Farmer City Country Club now, and is required to pay an initiation fee of $100, and also purchase a $50 share of stock, and a $500 bond of the club, he will be taxed only on the $100 paid as an initiation fee.

There are two general classes of exemption from the dues and initiation taxes: (1) dues and initiation fees of a certain type of organization; (2) assessments made for capital expenditures.

The Revenue Act of 1926 expressly exempts from tax "all amounts paid as dues or fees to a fraternal society, order, or association, operating under the lodge system, or to any local fraternal organization among the students of a college or university." The purpose and activities of a club and not its name determine its status for the tax. Every club having social, athletic, or sporting activities is presumed to be in the taxable class until proved otherwise. But, the mere possession and use of a swimming pool or other athletic facilities by an organization having religious or philanthropic social service for its main purpose does not bring the organization into the taxable class of athletic or sporting clubs.

The second general type of exemption is an important one for clubs within the taxable class. Any assessment or portion

thereof imposed to meet specified capital expenditures, and not to be used for current operations, is exempt from the tax on dues. However, when an amount designated for capital expenditures is included in the dues imposed by the by-laws for regularly recurring payment, such payments are subject to tax on the whole amount as dues, and no part comes under the exemption on assessments for capital expenditures.

For purposes of illustration, let it be assumed that the Idlehour Country Club, the regular dues of which are $40 a year, intends to add an additional nine holes to its golf course. For this purpose they assess each member $100. Each member of this club would be taxed 10 per cent. on his $40 dues, but would not be taxed on the $100, since it is an assessment for capital expenditure.

However, if the club decided to spread the payment over five years and add an assessment of $20 to the annual dues for the next five years, then the members would be required to pay the 10 per cent. tax on the full amount of $60 each year. Moreover, if initiation fees are used for capital expenditures, they are nevertheless subject to the 10 per cent. tax and do not come within the provision for exemption on assessments for capital expenditures.

The ordinary "greens" fee paid by a guest for use of the course is not paid "as dues or membership fees" and hence is not subject to tax. Likewise the payment by a member of a country club of an additional fee for the privilege of playing golf for a period of time is not subject to the tax imposed on dues and membership fees.

Most clubs, of either social or sporting nature, have many social functions and dances during the year. Consequently, the question of whether a tax must be paid on any charges made for these functions is of interest to club members. If the dance, or other social function, is a private affair for the entertainment of members, and their guests, and no admission charge is made, but the actual expenses are prorated among the members, then no tax need be paid on the amounts contributed by each member. The fact that the individual share of the expense is fixed at an even figure will not make the tax apply if the affair is truly a co-operative party of the character described above. However, if any of the guests are required, or allowed, to pay, or if any profit is contemplated or realized, then any amounts paid by the organizers or guests are subject to a tax of 10 per cent., if they exceed $0.75 a person.

There are many minor provisions of the law which must be referred to in the proper treatment of cases of an exceptional nature or those occurring less frequently. The provisions which have been brought out cover the principal features of the ordinary activities of a club and their application in Federal taxation.

News Items

Mr. R. W. Peters, formerly manager at Watertown, has been appointed a partner for the Orient, with headquarters at Shanghai. Mr. Peters sailed from Vancouver, August 11, 1927, on the S.S. *Empress of Asia* to take up his new duties. He will have supervision of our practice in the Far East, conducted at the present time from offices at Shanghai, China, and Manila, Philippine Islands.

Mr. Jumonville recently has been elected to membership in the American Institute of Accountants.

Mr. H. L. McEwen has been appointed manager of our Watertown office, effective August 1, 1927.

Mr. W. E. Curt has been appointed assistant manager of our Berlin office, effective July 15, 1927.

PRESS OF WILLIAM GREEN, NEW YORK